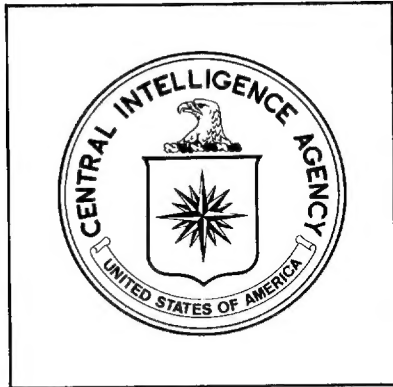


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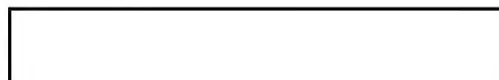
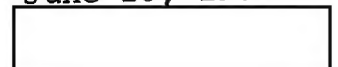
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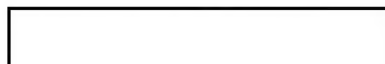
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Moscow and the Collapse of the
Sino-Japanese Peace Treaty

The collapse of Sino-Japanese negotiations on a peace treaty apparently caught the Soviets by surprise. On the very day that we learned that Sino-Japanese talks had broken down, Tass published a strongly worded version of the protest that had been made by Foreign Minister Gromyko to the Japanese ambassador a week earlier. The Soviets apparently assumed that a stiff warning was needed to put the Japanese on fresh notice that their acquiescence to Chinese demands for an anti-Soviet hegemony clause would cause a "freeze" in Soviet-Japanese relations. The protest, which turned out to be superfluous, has elicited a cool Japanese response.

While Moscow now may be concerned that its pressure tactics will backfire on Soviet-Japanese relations, it is undoubtedly pleased that the negotiations have stalled. The Soviets may even believe they can take some credit for the failure, although the Japanese, by their admission, were willing to give Peking most of what it wanted on the hegemony issue, and it was Chinese intransigence that halted negotiations.

Once passions generated by the Soviet protest have cooled, the Soviets may see some tactical advantage in renewing proposals that Japan sign a friendship treaty without first settling the dispute over the northern territories. The Soviets' unyielding position on the disputed islands will be, if anything, reinforced by the impasse in Japan-Chinese relations. Moreover, as long as its economic relations with Japan continue to expand, Moscow will not have much incentive to make concessions on the northern territories.

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Romania Calls for More Rapid Development
of Less Developed CEMA Countries

The Romanians have publicly called for a program to speed up development of the less industrialized CEMA countries. Bucharest may be prepared to present the proposal at the CEMA summit in Budapest next week should the Soviets, as expected, propose tightened economic integration. [REDACTED]

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[REDACTED]

Romanian economist Nicolae Belli spelled out the details of the Romanian proposal on June 10 in a major party theoretical journal. Belli called for:

- Increased access by all CEMA partners to raw materials and energy sources, and to the latest scientific and technological developments.
- Higher prices for agricultural products.
- Low or zero interest on credits.
- Increased production and exports of sophisticated finished products from less developed states.
- A higher priority on factory construction in the less industrialized states.

The Romanian proposal appears broad enough to appeal to the national interests of other CEMA members. All East European countries are concerned about access to raw materials, and the Bulgarians, in particular, have in the past complained about low prices for agricultural goods.

Belli attacked labor migration within CEMA as an inappropriate, capitalist practice. All the East

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European countries are sending large labor contingents to work on the Orenburg pipeline. The Bulgarians reportedly have been unhappy about Soviet efforts to double the size of the Bulgarian work force in the Soviet Union.

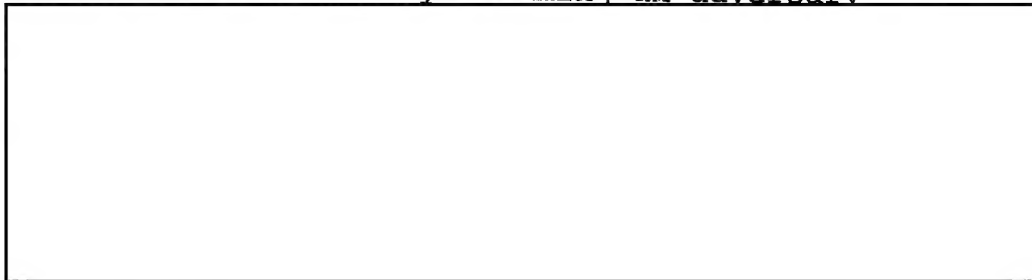
This latest Romanian statement comes in the wake of numerous spirited attacks in the Romanian press on "those" who would give greater authority to CEMA. [REDACTED]

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[REDACTED] Romania may be reacting to the rehabilitation of the Bulgarian economist, V. E. Valev, who has long resided in Moscow. Valev gained wide notoriety during the Khrushchev era for his ideas on economic specialization that would have mainly cast Romania in the permanent role of an agrarian state. [REDACTED] Moscow has suggested that the Dobrogea and Danube basin regions of Romania are ideal for "economic complexes" under "international management."

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The Romanians are almost certainly exaggerating Soviet pressure for tighter integration. This scare tactic--used by Bucharest before--appears aimed at generating support for the Romanian position both in and out of CEMA. Bucharest apparently reasons that other East Europeans will find it easier to oppose integration by pretending to cater to Romanian sensitivities rather than by assuming an adversary role.



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Yugoslavs and East Germans Confer
on European Communist Conference Differences

The East German party sent its top specialist in foreign affairs to Belgrade this week, presumably in an effort to reassure the Yugoslavs that the European conference of Communist parties will not adopt binding documents.

Hermann Axen, an East German party representative in the preliminary sessions, talked on Wednesday and Thursday with his Yugoslav counterpart and with Stane Dolanc, Tito's second-in-command in party affairs. Press commentary on the talks is sparse, but the Yugoslavs seem to want more bilateral meetings--a delaying tactic--and the East Germans continue to stress the need for a successful conclusion of the conference.

Axen's first priority in Belgrade was probably to try to convince the Yugoslavs that the Soviets and their supporters in the working group drafting conference documents will be reasonable in meeting Yugoslav objections. The Yugoslavs have complained that the previous draft, offered by the East Germans in April, violated Belgrade's understanding that there would be no binding program issued at the conference and that the views of all parties would be respected. The East Germans withdrew their draft under pressure in May.

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The July meeting shapes up as an important test of the limits of Soviet flexibility in dealing with the independent parties. Moscow will have to balance the demands of these parties for open and equal participation against its claim that the Soviet party plays the leading role in the world Communist movement.

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USSR: Steel Imports

The USSR became a net importer of steel last year for the first time since 1947, purchasing over 5 million tons of steel from the West--nearly 2 million tons more than in 1973. Large purchases last year coincided with booming steel prices and cost the USSR nearly \$1.9 billion in hard-currency payments, about \$1 billion more than in 1973. The principal sources of steel imports were West Germany, Japan, Belgium, and Italy.

The turnaround in Soviet steel trade arises from the steel shortages that have long plagued the Soviet economy and from the increased availability of foreign exchange. Notwithstanding its advance to leadership in volume of world production, the Soviet steel industry has not kept pace with domestic demand. Investment in basic iron and steel-making capacity, especially in facilities to turn out the diversified end products required by the expanding Soviet economy, has lagged.

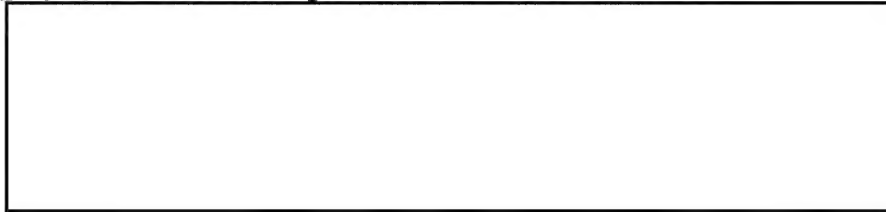
Domestic production is not likely to catch up with the growing needs for Siberian development and general industrial expansion for the rest of the decade, and still larger imports could be easily absorbed by the economy. Imports from the West accounted for only about 5 percent of Soviet consumption of finished steel in 1974. The Soviets reportedly will import about the same amount or perhaps more steel from the West this year. Hard currency will be available to maintain or substantially increase imports of steel from the West, especially if steel prices weaken as expected.

Types of steel imported from the West include a wide range of structural steel, large-diameter pipe for oil and gas transmission lines, tinplate,

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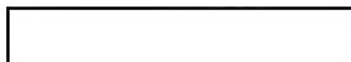
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transformer sheet, cold-rolled sheet for the manufacture of automobiles and appliances, and specialized tubular steel for the petroleum and chemical industries.



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USSR: Civil Aviation

The USSR has established a new state aircraft registry and a civil aviation flight safety commission to upgrade airworthiness standards and air transport safety procedures. Both organizations will be part of the Ministry of Civil Aviation and will have broad enforcement powers.

This is the first time Moscow has empowered a single group to draft airworthiness codes. Promulgation of new codes comparable to Western standards should be beneficial in marketing Soviet aircraft, particularly the new 100-passenger YAK-42, the IL-76 cargo transport, and the TU-144 supersonic transport.

The safety committee includes representatives from the ministries of Aviation Industry, Radio Industry, Civil Aviation, Defense, and Communications Equipment Industry. It has definitive responsibilities to set standards for ground service facilities and airport security as well as improving Aeroflot's operational procedures.

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